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Report Highlights:

MY 2004/05 coffee production is forecast to increase by 12 percent to 4.8 million bags (290,000 metric tons) in response to excellent rainfall distribution in growing regions. Exports are forecast to increase to 220,000 metric tons from 195,000 tons in MY 2003/04. The Coffee Board is working on strategies to protect small growers from price and climatic risks.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
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Table of Contents

SECTION I – SITUATION AND OUTLOOK.....	3
PRODUCTION	3
CONSUMPTION	3
TRADE	4
STOCKS	4
MARKETING	4
POLICY	5
SECTION II – STATISTICAL TABLES	6
Table 1: Commodity, Coffee, Green, PSD.....	6
Table 2: Commodity, Coffee, Green, Export Trade Matrix	7
Table 3: Commodity, Coffee, Arabica, Prices Table.....	8

SECTION I – SITUATION AND OUTLOOK

PRODUCTION

MY 2004/05 (Oct-Sep) coffee production is forecast at 290,000 tons (4.8 million bags of 60 kilogram), 12 percent higher than the revised MY 2003/04 estimate of 260,000 tons (4.3 million bags). Higher yields resulting from excellent pre-blossom showers and copious back up rains are likely to more than offset the negative impact of last year's drought and poor management practices adopted by farmers in response to lower prices. The 2004/05 production is likely to consist of 105,000 tons of Arabica and 185,000 tons of Robusta compared with 100,000 tons of Arabica and 160,000 tons of Robusta in 2003/04. Although not supported by statistical data, a shift in area from coffee to other crops like vanilla, spices and oranges is reportedly taking place in coffee plantations, as diversification is a risk management strategy typically adopted by most Indian coffee growers. Due to growing domestic and export demand, production of instant coffee is increasing, and capacity is expanding.

India's coffee area and production registered an overall significant growth in the past. The area under coffee increased from 220,000 hectares in the early nineties to 320,000 hectares in recent years, with the Robusta area registering a faster growth compared with Arabica. While Arabica yield remained relatively stable, the Robusta yield grew steadily reaching around 1100 kilograms per hectare in recent years, almost 30 percent higher than the Arabica yield. Consequently, Robusta production now accounts for more than 60 percent of the total coffee production. Although the Coffee Board is advocating a shift from Robusta to Arabica based on recommendations by a consultant's study, industry sources consider a large shift infeasible. Furthermore, a lower return from coffee is prompting farmers to neglect Arabica, which cost more to produce.

Although coffee production is undertaken in 17 states, production is mostly concentrated in the southern states of Karnataka, Kerala, and Tamil Nadu. Approximately 5 million people depend on the industry for their livelihoods, including nearly 550,000 directly employed plantation laborers. The total estimated labor requirement for a hectare of yielding plantation of Arabica and Robusta, respectively, are 495 man-days and 330 man-days per year. Both small holders and estates produce coffee, and the wide range of production intensities and yields reflect this. Almost 98 percent of the total 178,300 coffee holdings are less than 10 hectares and accounts for 60 percent of the production, while large-holder estates (over 10 hectares), which accounts for about 30 percent of the total coffee area, account for 40 percent of production.

High 1997 and 1998 coffee prices, along with liberalization of the coffee trade in the mid-nineties, encouraged Indian growers to plough back part of their profits in upgrading plantations, which resulted in a steady growth in production and processing capacity. Prior to liberalization, the scope for achieving significant quality price differentials for growers was lost under the pooling system, since different growers' coffees were bulked. Since liberalization, the quality of some plantation production has improved significantly as differentials have emerged. India has now entered the arena of "specialty coffees" with special focus on "Estate Branded", which is said to have unique cup quality characteristics. However, positive quality differentials have been slower to emerge with small growers.

CONSUMPTION

According to a recent Coffee Board sponsored survey, coffee consumption is estimated at 70,300 metric tons in CY 2003, significantly above the trend level. The recent spread of coffee-shop culture throughout major cities might have contributed to this higher

consumption. Currently there are several large companies offering a wide array of coffee preparations, which are becoming increasingly popular among the growing high income consumers, especially affluent young people. Coffee's major competitor has historically been tea; soft drinks, fruit drinks, and bottled drinking waters are posing new challenges. Coffee powder is traditionally blended with chicory in India to make the coffee stronger, with the chicory content in some brands as high as the maximum permitted limit of 49 percent. This is another factor constraining coffee consumption. However, with coffee prices declining and chicory becoming dearer, the use of chicory is likely to decline.

Reflecting the international price trends, Indian coffee prices also registered small gains in recent months with the March wholesale price of Arabica Parchment "A" at Bangalore averaging rs. 66 per kilogram (68 US cents per pound) and the Robusta Cherry "AB" at rs. 39 per kilogram (40 US cents per pound) compared with the December 2003 prices of rs. 55 and rs. 35 per kilogram for Arabica and Robusta, respectively. "Estate branded" coffees beans are getting high premiums. Retail coffee bean prices are about 5 percent higher. The retail price of pure grind coffee (Arabica plantation) in major southern cities ranges from rs. 110 to rs. 140 per kilogram (\$1.1 to \$1.4 per pound).

TRADE

Coffee exports in MY 2004/05 are forecast higher at 220,000 tons compared with the revised MY 2003/04 estimate of 195,000 tons, because of likely larger production and increased availability. Exports in MY 2003/04 were revised downward as most exporters are currently experiencing shortages, although exports during October 2003 to March 2004 period tracks close to the previous year's level. On a calendar year basis, exports in CY 2003 were 217,000 tons compared with 213,000 tons in CY 2002. Exports of instant coffee and specialty coffees are showing an upward trend and now accounts for about 24 percent of total coffee exports in quantity terms and 35 percent in value terms.

India, with a global coffee production share of 4.5 percent, also accounts for about 4.5 percent of world trade. Top markets for Indian coffee are Italy, Germany, Belgium, Spain, Slovenia, France, Algeria, Japan, and Greece. The Russian Federation is the largest importer of Indian instant coffee importing over 30,000 tons. U.S. imports of Indian coffee in 2003 were only 2,500 tons compared with 4,200 tons in CY 2002. Cheaper availability of coffee from South America and higher freight cost from India to the United States are reported to be factors constraining exports to the U.S. Small quantities of Indian specialty coffee are now finding their way to the U.S. market

India's coffee imports are insignificant and mostly confined to cheap Vietnamese and Indonesian coffee imported by export-oriented units for blending and re-exports. A 100 percent import duty on coffee makes large imports infeasible.

STOCKS

With the Coffee Board losing its monopoly on coffee marketing in the mid-nineties, no reliable estimates of stocks are available. MY 2003/04 ending stocks are estimated at 588,000 bags compared with 695,000 bags in MY 2002/03, due to lower production and increased consumption. MY 2004/05 ending stocks are forecast at 543,000 bags.

MARKETING

Following the liberalization of the marketing of coffee in 1996, the activities of the Coffee Board were considerably reduced, and producers were permitted to directly sell 100 percent of their coffee. Growers have several ways of marketing their coffee: they may (1) export

directly from plantation, after curing and grading at the plantation; (2) sell directly to domestic roasters, soluble manufacturers, or exporters; (3) hold coffee under the grower's own title at a curing factory after processing and then to sell by a channel of his choice; (4) submit the coffee to the curing works and warehouses for marketing through private auctions; (5) tender 600 kilograms lots of graded Plantation A or Robusta Cherry AB into the domestic futures market. Currently growers invariably sell on a spot basis, while traders tend to engage in back-to-back sales to eliminate their price risks. Exporters are permitted to sell forward, either on an outright basis or on PTBF (price to be fixed) basis.

The Coffee Board is now entrusted with the domestic and international promotion of Indian coffee. The Board promotes India coffee in major overseas exhibitions such as the World Specialty Coffee Conference & Exhibition in the U.S. The Coffee Board also organizes visits of foreign buyers to India to enable them to see how the Indian coffee industry functions. A logo has been developed for Indian coffee to improve its visibility as a distinct coffee in the world market. The Indian Coffee Board is hosting the 20th International Conference on Coffee Science on October 11-15, 2004, at Bangalore.

The increasing presence of modern espresso coffee bars in major cities provides an opportunity for US companies to supply products such as syrups, specialty coffees, etc. As India is now emerging as a producer of specialty coffee, U.S. coffee companies interested in setting up their operations in India may find it cheaper to source coffee domestically as the import duty on coffee in India is an exorbitant 100 percent.

POLICY

The Indian government continues to provide a rs. 0.50 per kilogram (\$11.4 per metric ton) transportation subsidy to exporters. During IFY 2003/04 (Apr-Mar), the subsidy was paid only for exports that occurred the last quarter. A committee is reportedly looking into the feasibility of continuing or perhaps modifying this scheme.

Although the Indian government has created a Price Stabilization Fund (PSF) of rs. 5 billion (\$114 million) with a view to providing price stability to small growers of coffee, tea, and rubber, the grower response to this scheme was reported to be lukewarm in view of the meager protection the scheme provides. The Coffee Board is now working on ways and means to insulate Indian coffee growers, particularly the small growers, from price and climatic risks.

The Reserve bank of India, India's Central Bank, has announced a relief package for the coffee sector, which includes rescheduling of loans and lowering interest rates.

The Indian Coffee Industry (both government and private) is generally supportive of the United States rejoining the International Coffee Organization, as they believe that it would provide more stability to the global coffee market. However, they realize that it would be more beneficial for the South American coffee growers than to India.

SECTION II – STATISTICAL TABLES

Table 1: Commodity, Coffee, Green, PSD

PSD Table							
Country	India						
Commodity	Coffee, Green						
	2003	Revised	2004	Estimate	2005	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		10/2002		10/2003		10/2004	MM/YYYY
Area Planted	349	349	349	355	0	355	(1000 HA)
Area Harvested	323	323	323	320	0	320	(1000 HA)
Bearing Trees	555	555	555	550	0	550	(MILLION TREES)
Non-Bearing Trees	65	65	65	70	0	70	(MILLION TREES)
TOTAL Tree Population	620	620	620	620	0	620	(MILLION TREES)
Beginning Stocks	831	831	695	695	749	588	(1000 60 KG BAGS)
Arabica Production	1702	1702	1775	1667	0	1750	(1000 60 KG BAGS)
Robusta Production	2886	2886	2812	2667	0	3085	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	4588	4588	4587	4334	0	4835	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	5419	5419	5282	5029	749	5423	(1000 60 KG BAGS)
Bean Exports	2852	2852	2582	2500	0	2929	(1000 60 KG BAGS)
Roast & Ground Exports	1	1	1	1	0	1	(1000 60 KG BAGS)
Soluble Exports	700	700	750	750	0	750	(1000 60 KG BAGS)
TOTAL Exports	3553	3553	3333	3251	0	3680	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	986	986	1000	1000	0	1005	(1000 60 KG BAGS)
Soluble Dom. Consum.	185	185	200	190	0	195	(1000 60 KG BAGS)
TOTAL Dom. Consumption	1171	1171	1200	1190	0	1200	(1000 60 KG BAGS)
Ending Stocks	695	695	749	588	0	543	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	5419	5419	5282	5029	0	5423	(1000 60 KG BAGS)

Table 2: Commodity, Coffee, Green, Export Trade Matrix

Export Trade Matrix			
Country	India		
Commodity	Coffee, Green		
Time Period	Jan - Dec	Units:	Metric Ton
Exports for:	2003		2004
U.S.	2481	U.S.	
Others		Others	
Italy	49815		
Russian Federation	32328		
Germany	22260		
Belgium	18353		
Spain	13723		
Slovenia	8844		
France	5998		
Algeria	4672		
Japan	4414		
Greece	4046		
Total for Others	164453		0
Others not Listed	50040		
Grand Total	216974		0

Table 3: Commodity, Coffee, Arabica, Prices Table

Prices Table			
Country	India		
Commodity	Coffee, Green		
Prices in	rupees	per uom	50 kg
Year	2003	2004	% Change
Jan	3172	2989	-6%
Feb	3183	3176	0%
Mar	2969	3228	9%
Apr	2965		-100%
May	2983		-100%
Jun	2735		-100%
Jul	2735		-100%
Aug	2686		-100%
Sep	2766		-100%
Oct	2571		-100%
Nov	2475		-100%
Dec	2466		-100%
Exchange Rate	45	Local Currency/US \$	
Date of Quote	12-May-04	MM/DD/YYYY	

Note: Auction price for Plantation 'A' at ICTA Bangalore